

R 091355Z MAR 09
FM AMEMBASSY PRETORIA
TO SECSTATE WASHDC 7633
CIMS NTDB WASHDC
INFO SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
DEPT OF COMMERCE WASHDC
DEPT OF TREASURY WASHINGTON DC

UNCLAS PRETORIA 000449

DEPT FOR AF/S; AF/EPS; EB/TPP
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
TREASURY FOR DAN PETERS
DEPT PASS USTR FOR WILLIAM JACKSON

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [EMIN](#) [ENRG](#) [ETRD](#) [BEXP](#) [KTDB](#) [SF](#)
SUBJECT: SOUTH AFRICA'S GDP CONTRACTS AFTER FORTY QUARTERS OF
POSITIVE GROWTH

11. Summary. South Africa's real GDP contracted by a seasonally adjusted and annualized rate of 1.8 percent in the fourth quarter of 12008. This was the first quarterly contraction since the third quarter of 1998. Growth was pulled down by weakness in the manufacturing; electricity, water and gas; and retail trade sectors. Growth in the agricultural and construction sectors offset some of the decline. Most economists expect further economic weakness during the first half of 2009 given weak domestic demand and deterioration in the global economy. End Summary

Fourth Quarter Decline

12. (U) Statistics South Africa (StatsSA) released the fourth quarter 2008 GDP numbers on February 24, 2009. Real GDP contracted by a seasonally adjusted and annualized 1.8 percent in the fourth quarter, down from a 0.2 percent increase in the third quarter. The fourth quarter GDP performance was the first quarterly contraction since the third quarter of 1998, when GDP declined by 0.9 percent. The fourth quarter 2008 decline was mainly due to a contraction in the manufacturing (-21.8 percent); electricity, water and gas (-2.7 percent); and retail trade (-0.2 percent) sectors; and a sluggish performance by the mining sector (0.4 percent).

13. (U) Analysts attributed most of the manufacturing weakness to the deteriorating global economy and the resulting slump in exports. In addition, local sales were being contained by weak household demand. Analysts pointed out that the manufacturing sector is now in a technical recession, following negative growth of 9.4 percent in the third quarter and 21.8 percent in the fourth quarter. Similarly, the retail trade sector contracted for the third consecutive quarter, mainly reflecting the continued impact of weak household demand. Analysts attributed the sluggish performance by the mining sector to weak global demand and falling commodity prices and expect output to remain depressed until global demand recovers.

14. (U) The decline in the electricity, gas and water sector was caused by a sharp fall in electricity consumption by the mining and manufacturing sectors. Furthermore, negative feedback effects from falling manufacturing, mining and retail trade activity were also evident in the transport, storage and communications sector, which grew by only 1.8 percent in the fourth quarter, compared to 4.5 percent in the third quarter. This was the weakest performance of the transport, storage and communications sector since 1998, when activity in the mining and manufacturing sectors was hit by the Asian crisis.

15. (U) In contrast, fourth quarter growth in the agricultural sector increased by an impressive 16.7 percent due to a relative good planting season and good weather conditions. Likewise, the construction sector expanded by a strong 10.8 percent, as it continued to benefit from strong fixed investment activity in preparation for the 2010 FIFA World Cup, as well as infrastructure spending by public corporations and the general government. However, these two sectors together account for only 6.7 percent of GDP. [Note: The SAG plans to spend R787 billion (about \$78 billion)

on infrastructure over the next three years. End Comment] Growth in the financial services sector, the largest sector of the economy, was 3.0 percent, confirming that South Africa's financial sector remains healthy relative to financial sectors elsewhere.

Local Reaction and Outlook

¶16. (U) An ABSA Economist told Embassy Economic Specialist that, "The figure was worse than expected." He pointed out that recovery in South Africa will primarily depend on the recovery in the global economy. A Nedbank economist expects GDP to contract further in the first quarter of 2009. However, she expects a mild recovery in the second half of 2009 as infrastructure spending continues and household demand starts to improve in the wake of lower interest rates and more manageable debt levels. Finance Minister Trevor Manuel predicted in his February-budget speech that GDP would grow by 1.2 percent in 2009. However, most economists expect growth of less than 1 percent for 2009. Some even predict negative growth.

Employment

¶17. (U) The decline in economic activity in the fourth quarter, as well as reports of companies cutting costs by reducing their workforces, was not reflected in StatsSA's quarterly labor force survey, which showed that the unemployment rate declined to 21.9 percent in the fourth quarter from 23.2 percent in the third quarter. The total number of individuals employed increased by 189,000 in the fourth quarter. Analyst found the outcome surprising and not sustainable in the current economic environment. Most analysts expect job losses to increase in 2009 as the economy continues to slow. [Note: Much of the fourth quarter employment increase was in the construction sector. Private sector contacts have told post that many mining and manufacturing firms are reluctant to lay off workers until they have a better idea of the duration of the downturn. This labor hoarding, in a skills shortage environment, has caused the expected decline in employment to fall behind the decline in GDP. End Note.]

Comment

¶18. (U) Fourth quarter GDP data confirms that the economy is weak and suggests that South Africa will slip into a technical recession if first quarter 2009 growth is also negative. The slowdown is broad based and likely to continue given the weak domestic demand and continuing deterioration in the global economy. The looming technical recession is unlikely to favor employment creation. However, lower interest rates should counter the economic slowdown and might restore growth in the second half of 2009.